

5. Study the extract below and answer the questions that follow.

Nigerian people seeing little benefit from record oil revenue

- ❶ Nigeria, the world's eighth largest oil exporter, has earned US\$1.2 trillion from oil production over the past four decades. Oil prices have been at record highs, yet the vast majority of Nigeria's 140 million people live in very poor conditions. Nigeria's size and two-million-barrel-per-day output make the contrasts between poverty and wealth extreme.
- ❷ In Nigeria, the four state-owned refineries are not fully operational, largely due to mismanagement and vandalism; its distribution network is chaotic; and it relies heavily on fuel imports, which cost around US\$4 billion each year.
- ❸ The oil industry employs about 35 000 Nigerians. Even if the industry were to add new jobs every year and replace departing staff, the number of jobs it can create in a year is below 5000. The Niger Delta alone has nearly 30 million people, about one-fifth of the nation's population. Its population grows at 2.4% a year, implying the need for some three million jobs a year. Oil can only play a small role in such an equation.
- ❹ Oil can fuel the engine of the economy, with other industries creating jobs. However, over the years, easy money from oil has distorted investment decisions, allowing Nigeria to neglect other industries. Given that 95% of its foreign-exchange earnings come from oil, Nigeria might think it has no reason to look beyond oil. Its reserves include approximately 36 billion barrels and, at the current rate of production, it has enough oil to last another 40 years.
- ❺ The government has set a maximum price for fuel, but retailers have taken advantage of the shortages to more than double the price of diesel fuel in some parts of Nigeria.
- ❻ 9 out of 10 Nigerians live on less than US\$2 a day and inflation rose 9.7% in May due largely to a rise in food prices. The public health system, education and roads in Nigeria are all in chaos, largely due to **corruption** and mismanagement during decades of military rule. People survive despite what the government does, not because of it and are trapped in a **poverty cycle**.

"Nigerian people seeing little benefit from record oil revenues"
by Tume Ahemba, New York Times, 21 July 2008.

(This question continues on the following page)

(Question 5 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) corruption (*paragraph 5*) *[2 marks]*
 - (ii) poverty cycle (*paragraph 6*). *[2 marks]*
- (b) Using an appropriate diagram, explain how a maximum price for fuel will impact on the market for fuel in Nigeria. *[4 marks]*
- (c) Using an appropriate diagram, explain how the discovery of new oil deposits may affect the potential output of Nigeria. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate the consequences of oil dependency on the growth and development of Nigeria. *[8 marks]*
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